

**BEFORE THE PUBLIC SERVICE COMMISSION
OF UTAH**

IN THE MATTER OF:

Joint Application of Questar Gas)
Company, the Division of Public)
Utilities, and Utah Clean Energy) **Docket Number 05-057-T01**
For the Approval of the Conservation)
Enabling Tariff Adjustment Option)
And Accounting Orders)

**STIPULATION TESTIMONY
OF
ERIC ORTON
ON BEHALF OF THE
UTAH COMMITTEE OF CONSUMER SERVICES**

September 25, 2006

1 Introduction

2 Q: **PLEASE STATE YOUR NAME, AND PARTY YOU REPRESENT FOR**
3 **THE RECORD.**

4 A: My name is Eric Orton. I am testifying for the Committee of Consumer
5 Services.

6

7 Q: **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A: To present the Committee's position on the Conservation Enabling Tariff
9 (CET) stipulation filed with the Commission on September 13, 2006.

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11 Q: **WERE YOU INVOLVED ON BEHALF OF THE COMMITTEE IN**
12 **SETTLEMENT NEGOTIATIONS AMONG THE PARTIES THAT**
13 **PRODUCED THIS STIPULATION?**

14 A: Yes. I have been continually involved in this case from its inception
15 through the discussions that culminated in this stipulation.

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17 Background

18 Q: **BRIEFLY DISCUSS THE COMMITTEE'S POSITION REGARDING THE**
19 **CET APPLICATION WHICH QUESTAR GAS COMPANY (QUESTAR**
20 **GAS OR UTILITY) AND THE DIVISION OF PUBLIC UTILITIES**
21 **(DIVISION) ORIGINALLY FILED WITH THE COMMISSION.**

22 A: The Committee has always been supportive of cost-effective DSM
23 programs, but viewed with concern the Joint Applicant's proposal to foster
24 natural gas DSM programs by providing the Utility revenue assurance via
25 this CET mechanism. We viewed the CET mechanism, whereby the
26 Utility's revenues would be "de-coupled" from its sales, as a substantial
27 departure from traditional ratemaking. Such a major policy change, which
28 among other things constitutes a further transfer of business risk from the
29 Utility to ratepayers, should not, in the Committee's view, be a matter
30 considered in isolation, but rather as part of a general rate case.

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32 The Committee retained Dr. David Dismukes, associated with the firm
33 Acadian Consulting, in Baton Rouge, Louisiana, to review the CET
34 application and respond to the Committee's concerns. Dr. Dismukes filed
35 expert witness testimony in this proceeding on behalf of the Committee
36 which challenges the Joint Applicants' claim that a full revenue-sales
37 decoupling mechanism is required in order for the Utility to roll out cost-
38 effective DSM programs. Dr. Dismukes identified concerns with a
39 number of aspects of the proposed CET. Those concerns included: (1)
40 fixing Utility revenues through variable rates (a.k.a., single item
41 ratemaking); (2) shifting the risk of changes in market or business
42 conditions to customers without a compensating adjustment to the Utility's
43 return on equity; (3) the Utility's claim of lost revenues did not appear to be
44 a significant problem given its recent historical (2005) and projected
45 (2006) earnings levels; and (4) the Utility has the capability of proposing a
46 future test year in a general rate case to address any alleged lost
47 revenues.

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49 Dr. Dismukes' testimony also describes alternatives to the proposed CET
50 mechanism that would remove the perceived barrier to implementing DSM
51 programs without the negative consequences associated with a full
52 revenue decoupling mechanism.

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54 Q: **IN OTHER WORDS, THE KEY ISSUE FOR THE COMMITTEE IS NOT**
55 **CONSERVATION, BUT RATHER THE MECHANISM THE JOINT**
56 **APPLICANTS ARE PROPOSING TO FOSTER NATURAL GAS**
57 **CONSERVATION. IS THAT CORRECT?**

58 A: Yes. That is correct. The Committee has always supported the
59 development and implementation of cost-effective DSM programs. For
60 example, the Committee has actively participated in PacifiCorp task forces
61 and advisory groups charged with evaluating electric DSM measures and

62 programs. We have periodically used outside experts to advise us on the
63 efficacy of certain DSM programs. The CET proposal creates no DSM
64 programs. It would merely remove a perceived barrier to the Utility's
65 willingness to implement DSM programs. The Committee believes there
66 are better ways to remove any such barrier than by granting the Utility
67 revenue assurance.

68
69 Alternatives

70 Q: **DID DR. DISMUKES PROVIDE ALTERNATIVES TO THE CET?**

71 A: Yes. He generally outlined incentive-based and partial decoupling
72 approaches that could be used to encourage the Utility to pursue cost-
73 effective DSM programs.

74
75 Q: **HOW DOES THE CET STIPULATION IMPACT THOSE**
76 **ALTERNATIVES?**

77 A: The Stipulation creates a window of time for the Committee and other
78 parties to more fully develop alternatives to the CET that would achieve
79 the desired objective of removing the perceived barrier to Questar Gas
80 implementing cost-effective DSM programs but be free of the downside
81 elements attendant to the CET. At the same time, the Stipulation allows
82 the Utility to initiate some DSM programs this heating season without
83 exposing ratepayers to the full lost revenue risk that would have resulted if
84 the Joint Applicants' proposal was approved by the Commission. The
85 Committee therefore views the Stipulation as an acceptable short-term
86 compromise.

87
88 In addition, there appears to be strong public support for natural gas DSM
89 programs. The Stipulation responds to that strong interest in conservation
90 but at the same time builds in time to make sure the long-term route to
91 that desirable objective is in the public interest.

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94

Settlement Provisions

95 Q:

PLEASE SUMMARIZE THE STIPULATION.

96 A:

The Stipulation essentially allows for the CET to be implemented for a period of one year, but caps the lost revenue exposure to the ratepayers during that one-year period. The Stipulation also allows cost effective DSM programs to begin immediately, but preserves the opportunity to develop a better mechanism to carry those programs forward after the first year of a three-year pilot program.

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103 Q:

WHY DOES THE COMMITTEE SUPPORT THE STIPULATION?

104 A:

As discussed above, the Committee determined it was in the public interest to not delay the implementation of cost-effective natural gas DSM programs. If the Stipulation is approved by the Commission, the Utility is committed to quickly move forward with an initial set of DSM programs.

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109

The Stipulation also relieves the Commission of the burden of attempting to be responsive to public support for DSM programs by possibly implementing a revenue-sales decoupling mechanism that goes well beyond what is necessary and creates its own set of regulatory issues. The Stipulation simply gets that Pilot Program off on a more sure footing by avoiding the risk that regulatory parties leaped before they first carefully looked. Nothing desirable has been lost and everyone has gained some time to consider how the program might be better structured.

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Benefits of the Stipulation

120 Q:

WHAT BENEFITS AND PROTECTIONS ARE INCLUDED IN THE STIPULATION FOR RESIDENTIAL AND SMALL BUSINESS CUSTOMERS?

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123 A: There are several notable provisions contained in the stipulation that
124 either benefit or protect customers. I'll list and briefly discuss them.

125
126 1. Customers benefit from the Utility's commitment to implement cost-
127 effective DSM programs for a period of three years, regardless of the
128 mechanism authorized after the first year to recover any resulting lost
129 revenues. In the first year alone, Questar Gas commits to spend \$2-\$5
130 million on cost-effective DSM programs and will seek Commission
131 approval of any proposed programs.

132
133 2. Approval of the Stipulation will establish a DSM Advisory Group to
134 assist in the development and proposal of cost-effective DSM
135 Programs.

136
137 3. A pilot program or "laboratory setting" is created to test the Utility's
138 good faith in pursuing cost-effective natural gas DSM programs, test
139 the appropriateness of the CET, and afford time for parties to develop
140 and propose workable alternatives to the CET.

141
142 4. The Stipulation limits the potential market and business risk exposure
143 that the CET creates for ratepayers by placing a "cap" on lost revenues
144 for a period of one year. Through August 2007, the Utility is limited to
145 amortizing into rates CET accruals amounting on a net basis to 0.5%
146 of total Utah GS revenues based on the most recent 12-month period.
147 Through August 2007, the overall amount that the Utility can accrue in
148 the CET balancing account for amortization purposes is capped at
149 1.0% of total Utah GS revenues based on the most recent 12-month
150 period. The 1% cap therefore limits customers' lost revenue exposure
151 to an estimated range of between \$7.5 to \$9.5 million.

- 153 5. The CET account balance will initially be credited by an amount of
154 approximately \$1.1 million, which will flow through as a decrease on
155 customers' bills once the CET goes into effect.
156
- 157 6. All parties reserve the right to file a general rate case at any time
158 during the pilot period.
159
- 160 7. The Committee waives its right to challenge the legality of the CET for
161 only the first year of the three-year pilot program.
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163 Public Interest

164 Q: **DOES THIS STIPULATION RESULT IN A FAIR AND REASONABLE**
165 **COMPROMISE OF ALL ISSUES IN THIS DOCKET AND IS IT IN THE**
166 **PUBLIC INTEREST?**

167 A: Yes. The Stipulation secures time for the parties and the Commission to
168 consider alternatives to the CET, limits customers' exposure to lost
169 revenues resulting from the CET, and commits the Utility to move forward
170 with cost-effective DSM programs this heating season. Thus, the
171 Committee believes the Stipulation is clearly in the public interest.
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173 Q: **DOES THIS CONCLUDE YOUR TESTIMONY ON THE PROPOSED**
174 **STIPULATION?**

175 A: Yes it does.